Economic Watch

# The slowdown in GDP growth continued in 2Q18

Angie Suárez

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**Portugal's GDP grew by 0.4% QoQ in 1Q18** (2.1% YoY), 0.3 pp less than both the growth seen in the previous quarter and that forecast by BBVA Research. Domestic demand continues to grow strongly, in contrast with the recent weakness seen in exports of both goods and services, which have been affected by the reduced thrust of the euro zone economy. Based on the data available so far**, BBVA Research estimates that growth in 2Q18 will be around 0.3% QoQ SWDA**[1]**.** In addition, this implies a 3 pp downward revision of the forecast for 2018 to 2.0%. GDP growth is expected to remain around these levels in 2019.

## The biggest contribution to growth in the Portuguese economy in 1Q18 came from private consumption

**The increase in Portugal's GDP in the first part of the year was mainly due to the dynamism of domestic demand**, which contributed 0.8 pp to growth, 0.5 pp more than in 4Q17 (see Figure 1). The improvement in consumer confidence, which has been in positive territory since 2Q17, the dynamism of the labour market and the accessibility of credit for households all contributed to growth in private consumption of 0.8% QoQ in 1Q18 (2.1% YoY).

**Public consumption continues almost unchanged (up by 0.1% QoQ, or 0.3% YoY)**, consistent with the process of adjusting the deficit, which is expected to reach 0.9% of GDP this year (2.1 pp less than in 2017), according to official forecasts.

**Investment for its part grew by 1.1% QoQ in 1Q18 (6.6% YoY),** more than the growth seen in 1Q17, and more than that seen in Q42017 when it stagnated (0.0% QoQ, up 6.4% YoY). It thus **contributed 0.2 pp to Portugal's quarterly GDP growth following two quarters of zero contribution**. The increase in capital expenditure on machinery and equipment (4.3% QoQ, 9.2% YoY) and especially in transport equipment (11.6% QoQ, 11.7% YoY) contributed to this increase, offsetting the zero growth in investment in construction during the quarter. Lastly, new lending transactions of up to €1 million to businesses declined by 3.7% YoY in March 2018. However, those in excess of €1 million increased by 5.2% YoY. (In March 2017 they had declined by 6.4% YoY, see Figure 5).

## Exports lose traction in the early part of 2018

Net external demand shaved 0.3 pp off Portugal's economic growth in 1Q18, in contrast with the last quarter of 2017 when it contributed 0.5 pp to GDP growth. In real terms[2], the slowdown was seen in exports of both goods and services (+0.5% QoQ and -1.3% QoQ respectively), while the increase in imports of goods was more than double that in exports in the quarter (1.2% QoQ). The biggest growth in nominal terms (12.7% QoQ) came from exports of vehicles, aircraft, boats and other transport equipment (27.2% QoQ in 4Q17).

On the other hand, tourist arrivals in 1Q18 were up by 0.6% QoQ SWDA, a fall of 1.9 pp from the previous quarter. Even so, in year-on-year terms, tourist arrivals continue to surpass last year's monthly figures.

1: Seasonally and working-day adjusted (SWDA) data.
2: Chain-linked volume data (reference year = 2011).

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## Job creation held steady in the first quarter of the year

Portugal continued to create employment in the first quarter of the year (0.6% QoQ SWDA), maintaining the year-on-year growth rates of over 3% seen in the same period last year. The service and retail sectors made the biggest contributions to job creation in 1Q18, while contributions from the industry, manufacturing and construction sectors were all negative. The unemployment rate has continued to fall, reaching 7.9% in 1Q18, 0.2 pp less than the previous quarter.

## 2Q18: Growth is expected to remain at around 0.3%

The few second-quarter data available on the rate of growth in employment point to a slight fall in April (-0.2% MoM SWDA, compared with -0.1% MoM in March), while the unemployment rate fell once again to 7.4%, the lowest level seen since early 2004. Consumption, investment and tourism all lose dynamism, while external trade shows signs of recovery.

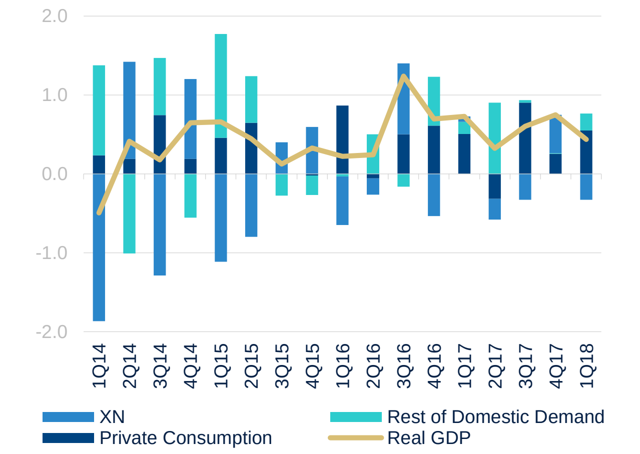
As regards consumption, while retail sales slowed in April (-4.1% MoM SWDA (+0.7 YoY), consumer confidence, which has been in positive territory since May 2017, continues to increase, growing 4.3% in May 2018 (1.1% in May 2017).

Apart from this, exports of goods grew by 2.1% MoM SWDA in April (18.1% YoY), and imports of goods also increased, by 2.0% MoM SWDA (13.1% YoY) (see Figure 7). The opposite was seen in tourist arrivals, which fell by 0.9% MoM SWDA in April (+1.1% YoY, the lowest YoY growth since 2013), while overnight stays fell by 0.8% MoM (-1.5% YoY).

Lastly, the industrial output index, after a positive first quarter, fell by 6.1% MoM SWDA in April (+9.0% MoM in March), following the falls seen in the industrial confidence indicator, which has been slowing since January (-0.3% in May 2018).

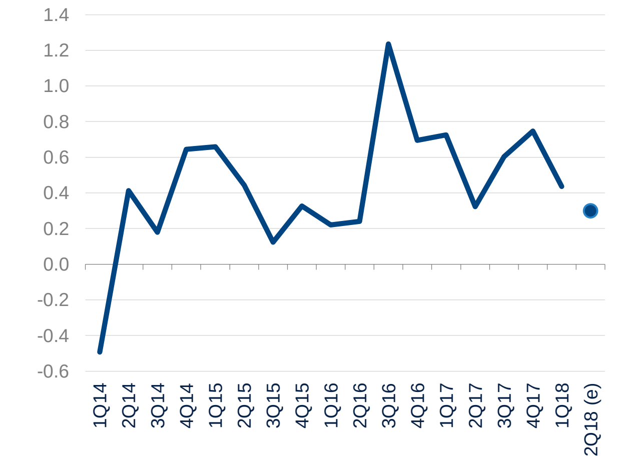
## Main indicators of activity

Figure 1 GDP (% QoQ) and contribution by components (pp)



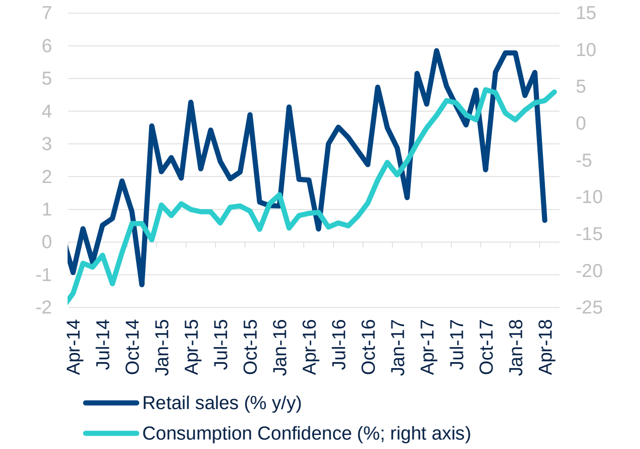

Source: BBVA Research based on INE (National Statistics Institute) data

Figure 2 MICA-BBVA: GDP growth (% QoQ) and forecasts



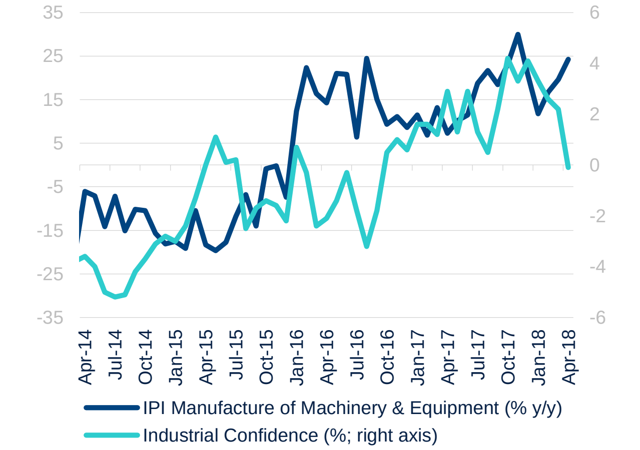

Source: BBVA Research based on INE (National Statistics Institute) data

Figure 3 Indicators associated with consumption



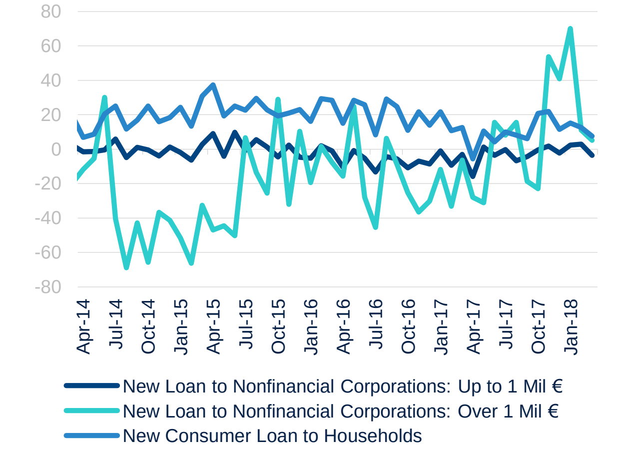

Source: BBVA Research based on INE (National Statistics Institute) data

Figure 4 Indicators associated with industry



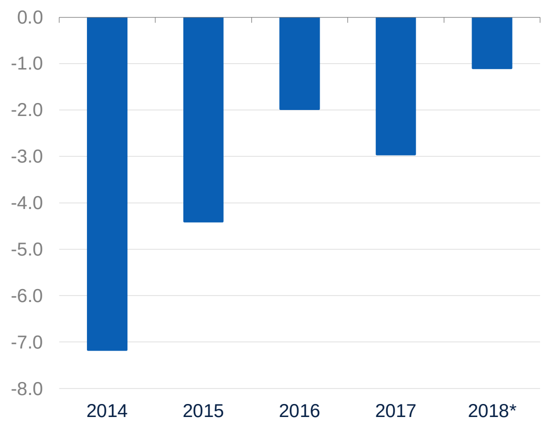

Source: BBVA Research based on INE (National Statistics Institute) data

Figure 5 New lending to businesses and households (% YoY)



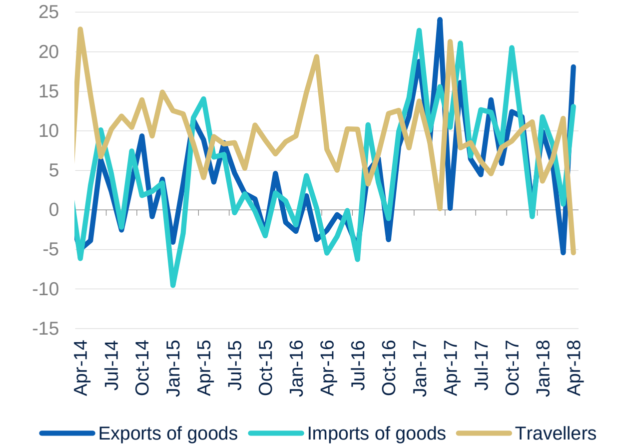

Source: BBVA Research based on INE (National Statistics Institute) data

Figure 6 Fiscal Deficit (% of GDP)



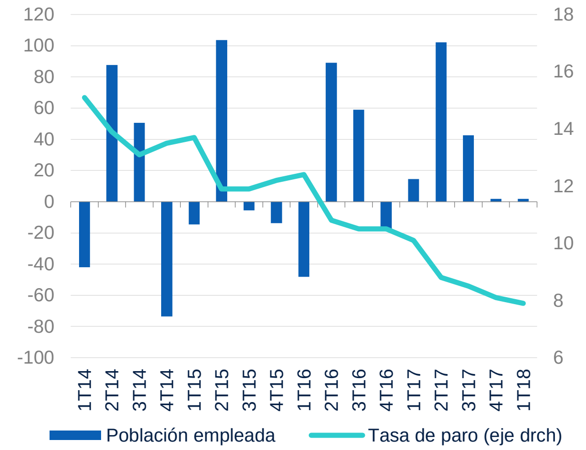

Source: BBVA Research based on INE (National Statistics Institute) data

Figure 7 Indicators associated with the external sector (% YoY)




Source: BBVA Research based on INE (National Statistics Institute) data

Figure 8 Number of people in employment (quarterly change in thousands of persons) and unemployment rate (%)




Source: BBVA Research based on INE (National Statistics Institute) data

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ENQUIRIES TO:
BBVA Research: Calle Azul, 4 Edificio La Vela, Floors 4 & 5 28050 Madrid, Spain. Tel. +34 91 374 60 00 y +34 91 537 70 00 / Fax (+34) 91 374 25 - bbvaresearch@bbva.com www.bbvaresearch.com